

PERAC AUDIT REPORT



Haverhill

Contributory Retirement System



JAN. 1, 2010 - DEC. 31, 2012



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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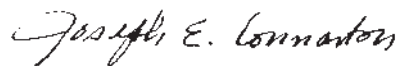
January 31, 2014

The Public Employee Retirement Administration Commission has completed an examination of the Haverhill Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2010 to December 31, 2012. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Ryan and Susan Kerr who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Bank Reconciliation

The Board has two Bank North checking accounts. One is an in-active account with a bank balance of \$5,770.85 as of March 31, 2013 and has been written-off the general ledger (GL). The active Bank North checking account has \$18,579 of stale dated (over six months old) reconciling items such as outstanding checks, ACH Settlements, interest, and bank fees.

Recommendation: The balance in the Bank North in-active account must be closed and transferred into the active account.

Stale dated reconciling items should be immediately adjusted on the GL and removed by the Treasurer from the reconciling items list. Reconciling items over six months old must require a meeting with the Treasurer to do determine the nature of the adjusting journal entry to be made on the GL.

Board Response:

The recommendation has been followed and the issue is resolved.

2. Vendor RFP Requirements and Contracts

The City of Haverhill has resorted to the use of outside contractors over the last several years. As a result the Board has hired various contractors for projects that would normally be done by city departments. Our review of contractor invoices revealed that a service contract with the vendors was not executed. A major office renovation project will commence soon at the Board's offices involving various service contractors. It should be incumbent upon the Board to require service contracts for vendors on this project.

In 2013 the Board paid a local CPA firm an audit fee of \$9,400.57 for a 2012 Retirement Audit. Separate invoices were directly billed by the firm to the Board. The firm has performed the audit for the Board for many years. The Board has failed to execute a contract under the guidelines of Chapter 21 Section 23(B), which requires a written contract for accounting services to be in place by February 16, 2012 for services provided thereafter. Chapter 21 Section 23(B) also requires that the Board conduct a competitive search which includes an RFP process. Please refer to PERAC Memo 2011 #39, for guidance.

Recommendation: The Board must execute contracts for services performed by outside contractors. Any vendors meeting the requirements of Chapter 32 Section 23(B) such as an accounting service provider CPA firm must comply with the guidelines stipulated within the law.

Board Response:

The Board will follow all guidelines under Chapter 21, §23(B) as recommended by PERAC.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2012	2011	2010
Net Assets Available For Benefits:			
Cash	\$1,773,070	\$1,951,564	\$2,934,091
Fixed Income Securities (at book value)	9,348,655	19,719,412	20,167,434
Equities	32,408,008	30,728,408	35,543,127
Pooled Domestic Equity Funds	17,938,691	17,094,491	17,083,680
Pooled International Equity Funds	24,687,441	20,793,593	24,616,769
Pooled Domestic Fixed Income Funds	22,478,521	12,069,435	11,558,839
Pooled Alternative Investment Funds	7,818,177	6,770,523	5,310,291
Pooled Real Estate Funds	18,534,137	16,664,457	17,369,955
Hedge Funds	15,503,319	12,887,214	12,954,006
Interest Due and Accrued	95,408	182,624	226,852
Accounts Receivable	55,689	523,087	398,121
Accounts Payable	(217,963)	(290,628)	(511,370)
Total	<u>\$150,423,154</u>	<u>\$139,094,180</u>	<u>\$147,651,796</u>
Fund Balances:			
Annuity Savings Fund	\$40,853,725	\$39,867,997	\$38,087,702
Annuity Reserve Fund	18,349,890	18,378,961	19,780,042
Pension Fund	6,498,711	7,033,821	7,288,139
Military Service Fund	12,085	12,073	12,051
Expense Fund	0	0	0
Pension Reserve Fund	<u>84,708,743</u>	<u>73,801,328</u>	<u>82,483,863</u>
Total	<u>\$150,423,154</u>	<u>\$139,094,180</u>	<u>\$147,651,796</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2010)	\$37,023,726	\$20,711,497	\$7,511,985	\$16,828	\$0	\$72,071,559	\$137,335,596
Receipts	3,367,110	591,575	11,913,146	(4,777)	1,728,427	17,247,494	34,842,975
Interfund Transfers	(1,743,830)	1,738,659	6,840,361	0	0	(6,835,190)	0
Disbursements	(559,303)	(3,261,690)	(18,977,354)		(1,728,427)	0	(24,526,774)
Ending Balance (2010)	38,087,702	19,780,042	7,288,139	12,051	0	82,483,863	147,651,796
Receipts	3,465,161	564,662	12,386,768	22	1,552,957	(2,210,898)	15,758,672
Interfund Transfers	(1,217,146)	1,213,004	6,475,778	0	0	(6,471,636)	0
Disbursements	(467,720)	(3,178,747)	(19,116,864)		(1,552,957)	0	(24,316,288)
Ending Balance (2011)	39,867,997	18,378,961	7,033,821	12,073	0	73,801,328	139,094,180
Receipts	4,002,697	534,622	13,499,373	12	1,600,242	16,384,358	36,021,304
Interfund Transfers	(2,627,045)	2,627,670	5,476,317	0	0	(5,476,943)	0
Disbursements	(389,924)	(3,191,363)	(19,510,801)		(1,600,242)	0	(24,692,330)
Ending Balance (2012)	<u>\$40,853,725</u>	<u>\$18,349,890</u>	<u>\$6,498,711</u>	<u>\$12,085</u>	<u>\$0</u>	<u>\$84,708,743</u>	<u>\$150,423,154</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Annuity Savings Fund:			
Members Deductions	\$3,454,968	\$3,236,424	\$3,104,726
Transfers from Other Systems	311,506	53,816	66,250
Member Make Up Payments and Re-deposits	126,397	60,632	57,371
Member Payments from Rollovers	69,607	26,592	27,280
Investment Income Credited to Member Accounts	<u>40,219</u>	<u>87,697</u>	<u>111,483</u>
Sub Total	<u>4,002,697</u>	<u>3,465,161</u>	<u>3,367,110</u>
Annuity Reserve Fund:			
Recovery of Annuity from Reinstatement	0	0	0
Investment Income Credited to the Annuity Reserve Fund	<u>534,622</u>	<u>564,662</u>	<u>591,575</u>
Sub Total	<u>534,622</u>	<u>564,662</u>	<u>591,575</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	298,666	214,892	425,500
Received from Commonwealth for COLA and Survivor Benefits	293,916	369,419	401,446
Pension Fund Appropriation	12,906,792	11,802,457	11,080,200
Settlement of Workers' Compensation Claims	<u>0</u>	<u>0</u>	<u>6,000</u>
Sub Total	<u>13,499,373</u>	<u>12,386,768</u>	<u>11,913,146</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	156	(4,828)
Investment Income Credited to the Military Service Fund	<u>12</u>	<u>(134)</u>	<u>50</u>
Sub Total	<u>12</u>	<u>22</u>	<u>(4,777)</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	<u>1,600,242</u>	<u>1,552,957</u>	<u>1,728,427</u>
Sub Total	<u>1,600,242</u>	<u>1,552,957</u>	<u>1,728,427</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	55,531	57,162	54,094
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	616	6,434	9,668
Miscellaneous Income	0	0	0
Excess Investment Income	<u>16,328,211</u>	<u>(2,274,495)</u>	<u>17,183,732</u>
Sub Total	<u>16,384,358</u>	<u>(2,210,898)</u>	<u>17,247,494</u>
Total Receipts, Net	<u>\$36,021,304</u>	<u>\$15,758,672</u>	<u>\$34,842,975</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2012	2011	2010
Annuity Savings Fund:			
Refunds to Members	\$270,470	\$188,991	\$306,257
Transfers to Other Systems	<u>119,455</u>	<u>278,729</u>	<u>253,046</u>
Sub Total	<u>389,924</u>	<u>467,720</u>	<u>559,303</u>
Annuity Reserve Fund:			
Annuities Paid	3,190,323	3,082,906	3,023,059
Option B Refunds	<u>1,040</u>	<u>95,841</u>	<u>238,631</u>
Sub Total	<u>3,191,363</u>	<u>3,178,747</u>	<u>3,261,690</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	14,668,150	14,404,707	14,208,166
Survivorship Payments	394,289	378,657	385,141
Ordinary Disability Payments	215,747	221,424	234,933
Accidental Disability Payments	2,913,753	2,907,477	2,926,586
Accidental Death Payments	547,592	465,158	415,816
Section 101 Benefits	127,167	115,183	105,330
3 (8) (c) Reimbursements to Other Systems	467,607	449,434	524,923
State Reimbursable COLA's Paid	157,954	157,429	156,614
Chapter 389 Beneficiary Increase Paid	<u>18,542</u>	<u>17,393</u>	<u>19,845</u>
Sub Total	<u>19,510,801</u>	<u>19,116,864</u>	<u>18,977,354</u>
Expense Fund:			
Board Member Stipend	15,000	15,000	15,000
Salaries	202,235	184,229	199,879
Legal Expenses	27,115	33,161	36,376
Medical Expenses	0	0	0
Travel Expenses	1,262	238	133
Administrative Expenses	62,898	53,956	49,917
Professional Services	17,775	14,446	40,056
Education and Training	640	0	0
Furniture and Equipment	4,558	1,583	1,630
Management Fees	968,293	978,819	1,058,046
Custodial Fees	167,266	142,046	202,356
Consultant Fees	95,368	93,262	90,543
Service Contracts	23,522	22,367	21,169
Fiduciary Insurance	14,310	13,851	13,323
Sub Total	<u>1,600,242</u>	<u>1,552,957</u>	<u>1,728,427</u>
Total Disbursements	<u>\$24,692,330</u>	<u>\$24,316,288</u>	<u>\$24,526,774</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Investment Income Received From:			
Cash	\$416	\$1,326	\$3,873
Short Term Investments	0	0	0
Fixed Income	493,594	912,819	934,607
Equities	623,035	487,937	487,890
Pooled or Mutual Funds	1,859,908	1,860,137	2,263,335
Commission Recapture	<u>1,631</u>	<u>2,515</u>	<u>2,962</u>
Total Investment Income	<u>2,978,583</u>	<u>3,264,735</u>	<u>3,692,667</u>
Plus:			
Realized Gains	4,740,151	3,024,651	7,451,572
Unrealized Gains	20,136,299	13,443,461	25,052,253
Interest Due and Accrued - Current Year	<u>95,408</u>	<u>182,624</u>	<u>226,852</u>
Sub Total	<u>24,971,858</u>	<u>16,650,736</u>	<u>32,730,677</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(29,745)	(58,890)	(116,324)
Realized Loss	(2,097,332)	(3,830,135)	(2,966,067)
Unrealized Loss	(7,137,434)	(15,868,906)	(13,542,517)
Interest Due and Accrued - Prior Year	<u>(182,624)</u>	<u>(226,852)</u>	<u>(183,167)</u>
Sub Total	<u>(9,447,136)</u>	<u>(19,984,783)</u>	<u>(16,808,075)</u>
Net Investment Income (Loss)	<u>18,503,306</u>	<u>(69,313)</u>	<u>19,615,269</u>
Income Required:			
Annuity Savings Fund	40,219	87,697	111,483
Annuity Reserve Fund	534,622	564,662	591,575
Military Service Fund	12	(134)	50
Expense Fund	<u>1,600,242</u>	<u>1,552,957</u>	<u>1,728,427</u>
Total Income Required	<u>2,175,095</u>	<u>2,205,182</u>	<u>2,431,536</u>
Net Investment Income	<u>18,503,306</u>	<u>(69,313)</u>	<u>19,615,269</u>
Less: Total Income Required	<u>2,175,095</u>	<u>2,205,182</u>	<u>2,431,536</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$16,328,211</u>	<u>(\$2,274,495)</u>	<u>\$17,183,732</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2012		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$1,773,070	1.2%
Fixed Income Securities (at book value)	9,348,655	6.2%
Equities	32,408,008	21.5%
Pooled Domestic Equity Funds	17,938,691	11.9%
Pooled International Equity Funds	24,687,441	16.4%
Pooled Domestic Fixed Income Funds	22,478,521	14.9%
Pooled Alternative Investment Funds	7,818,177	5.2%
Pooled Real Estate Funds	18,534,137	12.3%
Hedge Funds	15,503,319	10.3%
Grand Total	\$150,490,019	100.0%

For the year ending December 31, 2012, the rate of return for the investments of the Haverhill Retirement System was 12.59%. For the five-year period ending December 31, 2012, the rate of return for the investments of the Haverhill Retirement System averaged 2.71%. For the twenty seven-year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Haverhill Retirement System was 10.15%.

The composite rate of return for all retirement systems for the year ending December 31, 2012 was 13.84%. For the five-year period ending December 31, 2012, the composite rate of return for the investments of all retirement systems averaged 1.83%. For the twenty seven-year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.27%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Haverhill Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

September 19, 2007

Notwithstanding the provisions of any statute or regulation to the contrary, specifically including the provisions of 840 CMR 21.01, the Haverhill Retirement Board is hereby granted an exemption from restrictions on investment for the purposes of investing seven million dollars (\$7,000,000) of the Haverhill Retirement System's assets in the Eaton Vance Loan Opportunities Fund, Ltd., a private placement investment.

February 14, 2007

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Haverhill Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the Institutional Retirement Trust (IRT) International Equity Trust (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account ERISA Section 408(b)(8) as well as other statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, Prohibited Transaction Class Exemption 91-38, and other available class exemptions.

Members of the Haverhill Retirement System shall receive creditable service for service rendered consistent with this regulation in the following manner:

For a member in service who is employed in a full-time capacity while an employee in the City of Haverhill, or in any member unit of the Haverhill Retirement System, he/she will receive one year of creditable service for each full calendar year in which the employee is receiving regular compensation for said service.

For a member in service who is employed in a permanent part-time capacity (20 hours per week or greater) throughout his/her entire career while an employee in the City of Haverhill, or in any member unit of the Haverhill Retirement System, he/she will receive one year of creditable service for each full calendar in which the employee is receiving regular compensation for said, service.

For a member in service who has been employed in both a full-time and part-time capacity (part-time consisting of less than 20 hours per week) while an employee in the City of Haverhill, or in any member unit of the Haverhill Retirement System, he/she will receive full-time credit for full-time service, and prorated credit for part-time service based on the permanent part-time equivalency of 20 hours for the position, with 87 hours in any calendar year equaling to one month of creditable service for that year.

For a member who is employed in a part-time capacity (less than 20 hours per week) throughout his/her entire career while an employee in the City of Haverhill, or in any member unit of the

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

Haverhill Retirement System, he/she shall not be allowed membership with the Haverhill Retirement System. If he/she becomes eligible for membership with the Haverhill Retirement System prior to retirement, this past service shall be prorated based on the permanent part-time equivalency of 20 hours for the position, with 87 hours in any calendar year equaling to one month of creditable service for that year.

In the case of School Department or City employees whose full-time employment requires them to work from on or about September 1 to on or about June 30, said employees shall receive one month of creditable service for each full month the employee is receiving regular compensation, with 10 months being the equivalent of one year of creditable service. Exception being made for the first year of membership that unless said member has been employed as of January of said year, no creditable service will be given for the months of July and August of that year.

Any member who purchases past part-time service rendered shall have said service prorated based on 20 hours being considered a full week of service for permanent part-time employees with 87 hours in any calendar year equaling to one month of creditable service for that year.

November 10, 2005

The Haverhill Retirement Board is authorized to invest in the RhumbLine S&P Mid Growth Index on a temporary basis. The Board will be conducting a competitive search process for a permanent manager to replace Forstmann Leff, which it has voted to terminate on the basis of both performance issues and organizational concerns. TheRhumbLine fund was selected on the basis of low cost and other factors. This authorization will extend through February 28, 2006

October 17, 2002

In accordance with PERAC Investment Guideline 99-3, the Haverhill Retirement Board is authorized to sell its remaining position in North Bridge Venture Partners II (NBVP II) back to the General Partner and to reinvest the proceeds in North Bridge Venture Partners V. This transaction is intended to benefit the Limited Partners by closing the books on NBVP II, eliminating risks due to possible dilution and market uncertainty. It would benefit the General Partner by creating a consolidated, more efficient administrative structure.

March 26, 2001

In accordance with PERAC Guideline 99-1, the Haverhill Retirement System authorizes Fisher Investments, its small cap value manager, to utilize options up to 7% of its portfolio value. As specified in the Guideline, the manager's use of options is solely for the purpose of limiting the account's exposure to the equity market's volatility. The Board believes that the use of options as a management tool is preferable to having the manager sell stocks outright from its portfolio.

January 31, 2000

The Haverhill Retirement Board hereby adopts the terms of the declaration of trust establishing the Institutional Retirement Trust, a Collective Trust of Institutional Trust Company for Participating Pension and Profit Sharing Trusts, collective trust fund sponsored by INVESCO Trust Company, as such declaration of trust is amended from time to time, and agrees that the terms of the declaration of trust, as amended, shall be incorporated into and made part of the retirement plan as administered by the Haverhill Retirement Board. The sole purpose of this special regulation is to

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

satisfy the requirement of the Internal Revenue Service Revenue Ruling 81-100 that each plan that invests in a collective trust established under Revenue Ruling 81-100 incorporate the terms of the collective trust, and this special regulation shall be construed accordingly.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Lexington Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6 % after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s.6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$774.36 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$774.36 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Haverhill Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

Creditable Service

Any member of the Haverhill Retirement System who has purchased and received creditable service prior to the effective date of this regulation will not be, affected by this regulation.

April 24, 2002

Any current member of the Haverhill Retirement System who contacted the Board and attempted to make application for the purchase of creditable service pursuant to the terms and conditions of chapter 71 of the acts of 1996, as amended by chapter 188 of the acts of 1996, and who otherwise failed to go forward in such application process because the Board was only considering a lump-sum payment within 180 days of the effective date of the legislation or notice of eligibility, may pay into the annuity savings fund of the Haverhill Retirement System the appropriate make-up payment. Such payment may be in installments at an interest rate to be determined by the Board provided that such installments are completed before the member's effective date of retirement. Interest will commence 180 days after the effective date of the legislation or notice of eligibility. In support thereof, the member must submit an affidavit attesting to reason or reasons why the member failed to complete the process. The Board reserves the right to reject the application after a hearing to which the applicant shall receive notice to attend.

July 2, 2001

Veteran's Buyback

All members entitled to the Veteran's Buy Back, must make application within the one hundred-eighty (180) days as required under Chapter 71 of the Acts of 1996. They shall then have the option of paying for this creditable service at any time, up to their date of retirement, in one lump sum payment

Miscellaneous

July 5, 2005

The Haverhill Retirement Board has determined that it is necessary and in the best interest of its active and retired members, beneficiaries and survivors, to grant access to the name, address, telephone numbers and/or social security numbers of those individuals for the sole and limited purposes of assisting in the proper administration of G.L. c. 32 and 32B, and the issuance of monthly benefit checks. The Board recognizes the need to protect the privacy of its active and retirement members, beneficiaries and survivors, and to that end will only allow access to personal information to the City of Haverhill's Treasurer's Department, Human Resources Department, Data Processing Department, Benefits Coordinator and School Department.

The Board will also grant access [for the purpose of mailings but will not allow the release of the names and addresses of its active and retired members to candidates who are seeking an elected seat on the Board. The following procedure must be undertaken for access to be granted:

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

1. All information must be in sealed pre-stamped envelopes or on pre-paid Postcards;
2. Information must be supplied to the Staff one week prior to mailing; and
3. Address labels will be generated and affixed by the Retirement Staff with a cost to the candidate for the labels and one hour of office time at the lowest office rate. All information will be mailed by the Haverhill Retirement Office Staff. All other requests for the addresses or other personal information of the active and retired member, beneficiaries and survivors will be evaluated on a case-by-case basis [consistent with applicable law], and this supplemental regulation may be amended from time to time, subject to PERAC's approval, to address the needs of the members, beneficiaries and survivors and the City of Haverhill.

Travel Regulations

The Haverhill Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website <http://www.mass.gov/perac/Haverhill>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Charles Benevento

Appointed Member: Donald J. Shea Term Expires: 4/27/16

Elected Member: Lewis F. Poore Jr. Term Expires: 6/30/14

Elected Member: William J. Klueber, Chairman Term Expires: 12/12/16

Appointed Member: James P. Cleary III, Esq Term Expires: 2/13/15

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	Fiduciary liability coverage provided to a limit of \$50,000,000 under
Ex-officio Member:)	a master MACRS-sponsored policy issued through a layered
Elected Members:)	program with policy issued through a layered program with
		Travelers Casualty & Surety Co., National Union Fire, and
Appointed Members:)	Arch Insurance Co. Separate fidelity coverage pertaining to
Staff Employees:)	ERISA/Crime to a limit of \$1,000,000 issued through Travelers.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting Inc. as of January 1, 2012.

The actuarial liability for active members was	\$101,283,824
The actuarial liability for inactive members was	3,392,736
The actuarial liability for retired members was	<u>201,377,033</u>
The total actuarial liability was	<u>\$306,053,593</u>
System assets as of that date were	<u>150,438,455</u>
The unfunded actuarial liability was	<u><u>\$155,615,138</u></u>
 The ratio of system's assets to total actuarial liability was	 49.2%
As of that date the total covered employee payroll was	\$36,455,272

The normal cost for employees on that date was 8.69% of payroll

The normal cost for the employer was 3.43% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum
 Rate of Salary Increase: Assumed 2% increases during the next two years (2012-2013) and 4.25% thereafter. 3.00% steps are added in the first 4 years of employment

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2012	\$150,438,455	\$306,053,593	\$155,615,138	49.2%	\$36,455,272	426.9%
1/1/2010	\$146,003,639	\$284,159,660	\$138,156,021	51.4%	\$35,096,940	393.6%
1/1/2009	\$144,291,739	\$282,521,561	\$138,229,822	51.1%	\$38,301,434	360.9%
1/1/2008	\$167,717,317	\$275,805,310	\$108,087,993	60.8%	\$36,828,302	293.5%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Retirement in Past Years										
Superannuation	80	23	12	16	28	19	30	23	18	39
Ordinary Disability	1	1	0	1	0	1	0	0	0	2
Accidental Disability	1	1	2	1	1	4	7	4	0	4
Total Retirements	82	25	14	18	29	24	37	27	9	45
 Total Retirees, Beneficiaries and Survivors	1,146	1,193	1,209	1,172	1,165	1,102	1,097	1,095	1,067	1,076
 Total Active Members	987	1,025	1,012	966	970	943	921	938	922	940
Pension Payments										
Superannuation	\$11,542,672	\$13,045,716	\$13,182,399	\$13,242,067	\$13,616,462	\$13,791,608	\$13,841,607	14,208,166	14,404,707	14,845,982
Survivor/Beneficiary Payments	467,442	242,093	405,600	396,626	429,365	391,548	376,172	385,141	378,657	394,289
Ordinary Disability	216,225	204,522	206,970	215,566	212,739	257,297	227,448	234,933	221,424	215,747
Accidental Disability	2,374,025	2,427,752	2,443,996	1,857,483	2,599,723	2,639,330	2,772,368	2,926,586	2,907,477	2,913,753
Other	400,841	511,694	729,606	689,178	724,740	994,233	1,243,669	1,222,528	1,204,598	1,141,030
Total Payments for Year	<u>\$15,001,205</u>	<u>\$16,431,777</u>	<u>\$16,968,571</u>	<u>\$16,400,920</u>	<u>\$17,583,029</u>	<u>\$18,074,016</u>	<u>\$18,461,264</u>	<u>\$18,977,354</u>	<u>\$19,116,864</u>	<u>\$19,510,801</u>

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